AGMARDT

FUTURE SHAPERS

Empowering a resilient future

Fund Management
Year Ended 30 June 2022

Fund Management

With constraints and strengths however, comes opportunities and AGMARDT is well positioned to continue to work with those businesses or collaborations that are taking action now to maximise values and value for the communities that we serve, both here in Aotearoa and the world.

Miriana Stephens, AGMARDT Trustee

Fund Performance for the year ending 30 June 2022

It was an extremely challenging year for active investing due to a combination of factors including unexpected inflation, rising interest rates and geopolitical tensions and as a result AGMARDT's Trust Fund underperformed for the financial year ending June 2022. The fund returned -7.1% for the financial year against a strategic benchmark of -5.1%. However, since its inception AGMARDT's Trust Fund has returned 7.0% p.a. and has outperformed its strategic benchmark of 6.9% p.a.

The AGMARDT Trust fund totalled $88 million as at 30 June 2022, down from $96.8 million at the end of June 2021. As illustrated in the chart, the Trust Fund remains well ahead of the Real Capital Level of $72.0 million (2021: $59 million)) but below the Upper Investment Reserve level of $90.0 million (2021: 84 million).

In the early months of the 2021/22 financial year, risk markets were moderately positive; and were buoyed by expectations for above trend economic growth, supported by the reopening of economies and rising vaccination rates. Earlier in the September quarter, there was steady progress across developed economies in the easing of COVID-19 related restrictions, despite some concerns about the increasing spread of the Delta variant.

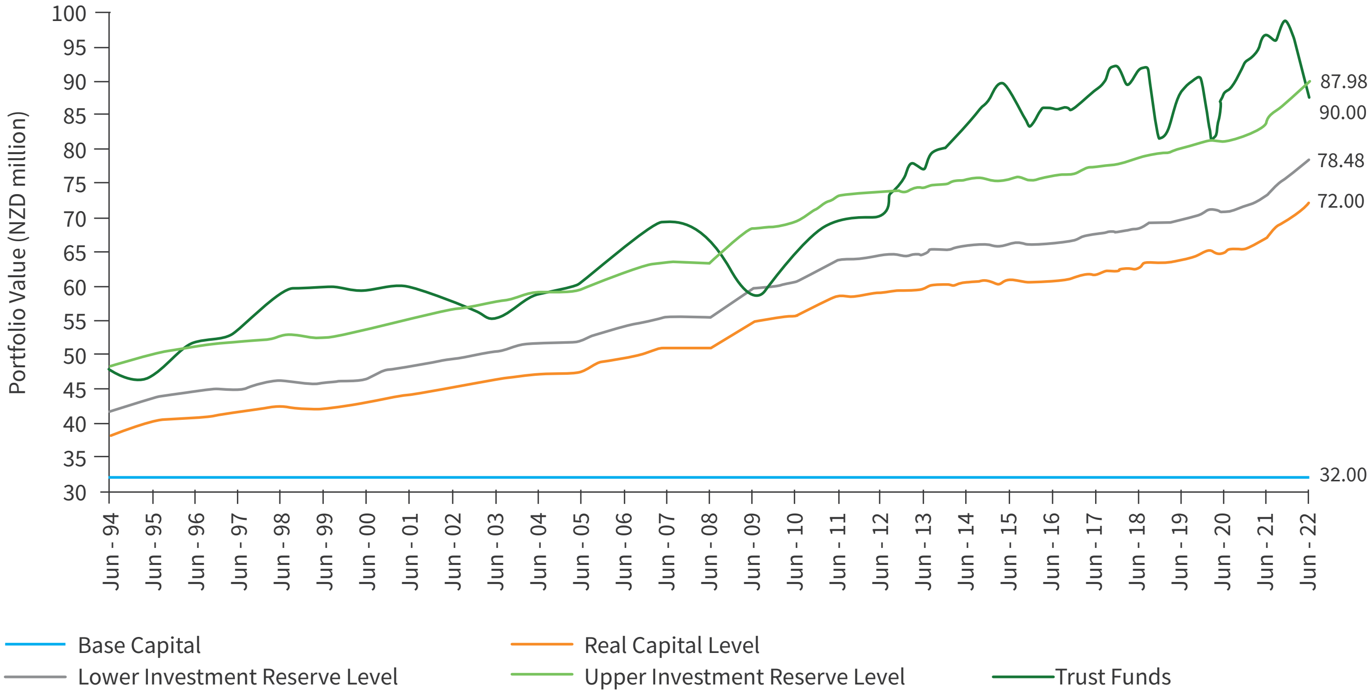
Market volatility spiked during November 2021, following the emergence of the COVID-19 Omicron variant, and its rapid spread across multiple countries. Markets however ended the calendar year strongly, as it became clear that the Omicron variant generally led to less severe illness and fewer hospitalisations. The December quarter saw robust corporate earnings growth, and markets retained positive sentiment about the ongoing strength in economic growth.

As the financial year drew to a close, the risk of persistently higher inflation pushed most developed and emerging market equities materially lower, along with most asset classes. The first half of 2022 was also poor for both bonds, as markets priced in expectations of higher policy rates from Central Banks. In contrast to most other markets, Chinese equities were stronger over the June quarter, benefitting from relaxation of COVID-19 related lockdowns and improving manufacturing and services purchasing manager PMI data.

New Zealand experienced a relatively subdued start to the financial year with activity from primary industries continuing to fall, in particular agriculture which recorded a decrease of 3.8%, driven by falls in beef and dairy farming.

AGMARDT Real Capital Level and Trust Funds

(June 1994 to June 2022)



Inflation was forecast to remain high and increase further as energy demand worldwide resulted in sharply higher fuel prices. Annual house price growth moderated to 14.2%, significantly lower from the peak of 30.6% reached in August 2021. In another sign of easing demand, houses were taking longer to sell with the median number of days on the market increasing by 6 days to 38 days. Indicators were pointing towards housing prices continuing to fall as the tightening of lending criteria coupled with continued expectations of higher interest rates further reduced the demand for housing. However, GDP rebounded 3% in the December quarter, with services industry rising 2.5%, manufacturing up 6.5% and construction up 8.7%. The strong recovery in economic activity relative to the -3.6% in September quarter was supported by the gradual easing of COVID-19 restrictions with the implementation of the new COVID-19 Protection Framework (traffic light) system.

In the beginning of 2022, New Zealand's release of economic indicators for Q4 reinforced the ongoing concerns surrounding inflation, supply chain and labour shortages. The biggest drivers of inflation were construction costs, up 15.7% and petrol, up 30.5% year on year. December quarter labour market data showed that unemployment fell to a new record low of 3.2% while underutilisation rate remained stable at 9.2%. This tightness in the market started to flow into wage increases with the Labour Cost Index 2.8% higher than a year ago, though it remains well below the CPI.

Fast forward to the year ending 30 June financial conditions have continued to tighten, with mortgage rates rising in response to increases to the Overnight Cash Rate (OCR). New Zealand annual inflation was 7.3% in the June quarter from 6.9% in the March quarter, the fastest acceleration in 32 years. Consumer prices gained 1.7% from three months earlier, exceeding the 1.5% median estimate. Unemployment is at a record low of 3.2% amid a labour shortage, with economists saying the risks of a recession next year are mounting as higher borrowing costs hurt consumer and business confidence and house prices decline. As forceful as New Zealand's core inflation is, there is still the likelihood that annual headline inflation will progressively slow over the period ahead.

Investment Strategy

Following the increase in allocation to the growth assets by 10% in the Long Term Asset Allocation (LTAA) and Strategic Asset Allocation (SAA) in financial year 2019/20, there have been no subsequent changes to the allocation in the last financial year.

In order to preserve the current value of the portfolio for the uncertainties in the market and maintain its capacity to donate, the Trust remains well diversified but positioned conservatively in the medium-term strategic asset allocation relative to the long-term asset allocation.

Asset Allocation as at June 2022	Long-Term Asset Allocation(%)	Strategic Asset Allocation (%)	Actual Allocation (%)
Growth Assets			
Global equities	34	29	32.2
New Zealand equities	12	8	6.3
Property	12	12	12.1
Growth alternatives	12	16	17.6
	70	**65**	**68.2**
Defensive Assets			
International fixed interest	17	13	12.9
New Zealand fixed interest & cash	8	12	7.9
Defensive alternative assets	5	10	11.0
	30	**35**	**31.8**

Note: Proportion of foreign currency exposures are hedged.

AGMARDT's investment managers at the end of the year were JANA Investment Advisers, ANZ, Nikko Asset Management, Bentham Asset Management and Morrison & Co. BNZ provide a currency hedging overlay for a proportion of the foreign currency exposure.

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